

Globalization of the Defense Industry

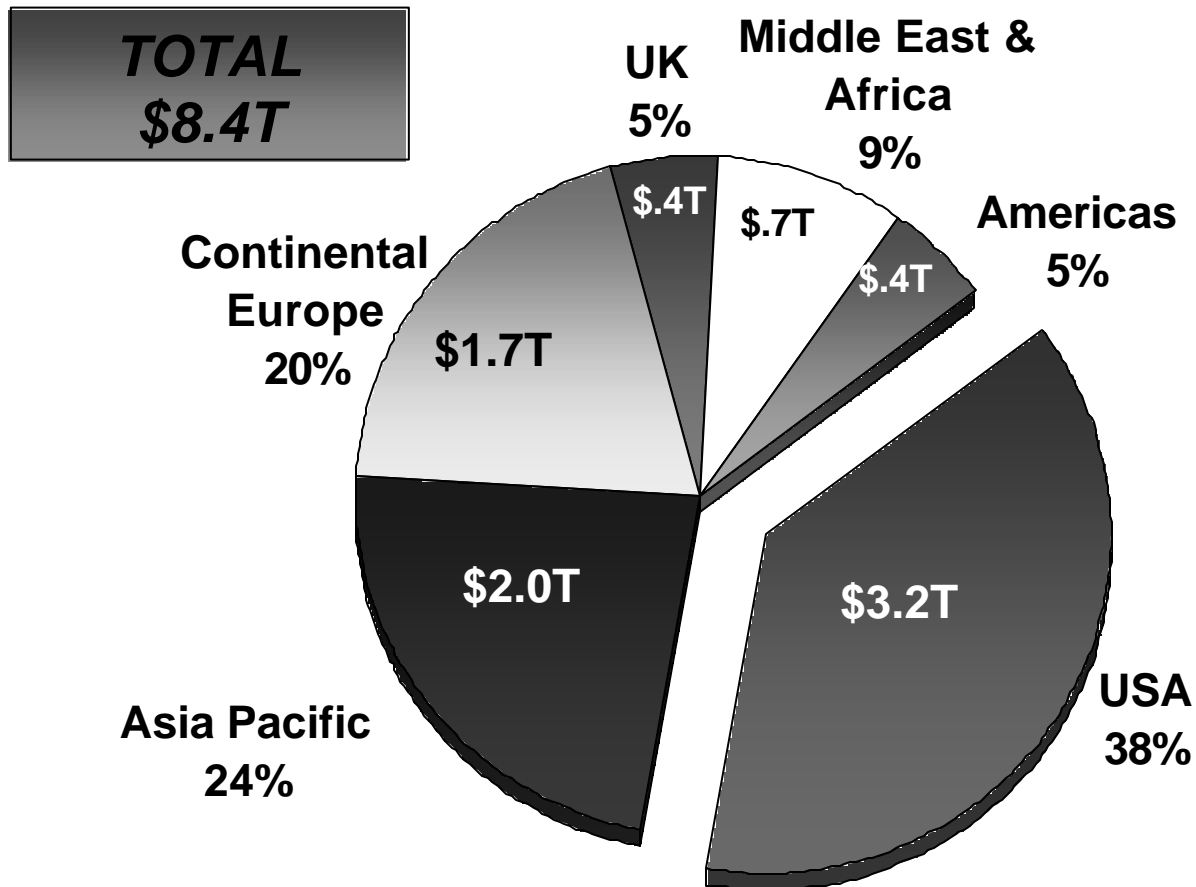
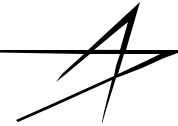
NDIA Conference

March 28, 2001

James R. Nelson
President
Lockheed Martin Overseas Corporation

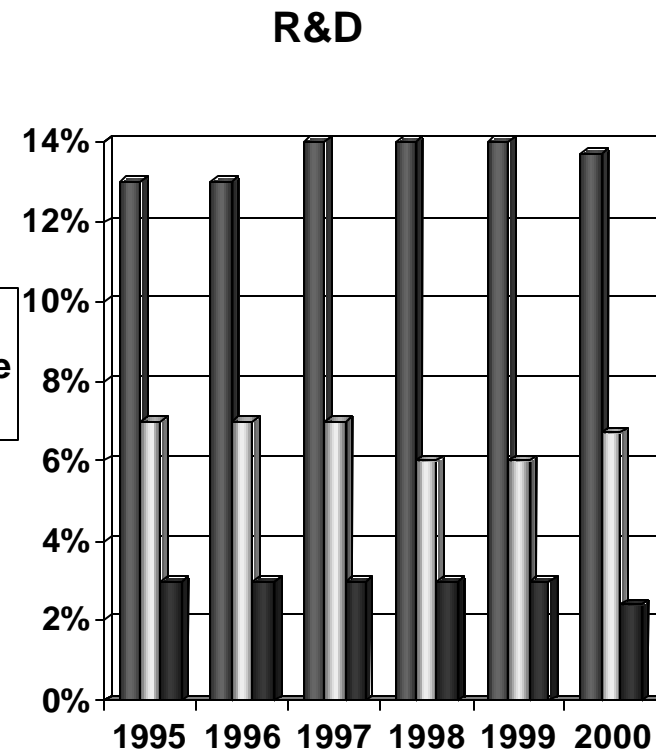
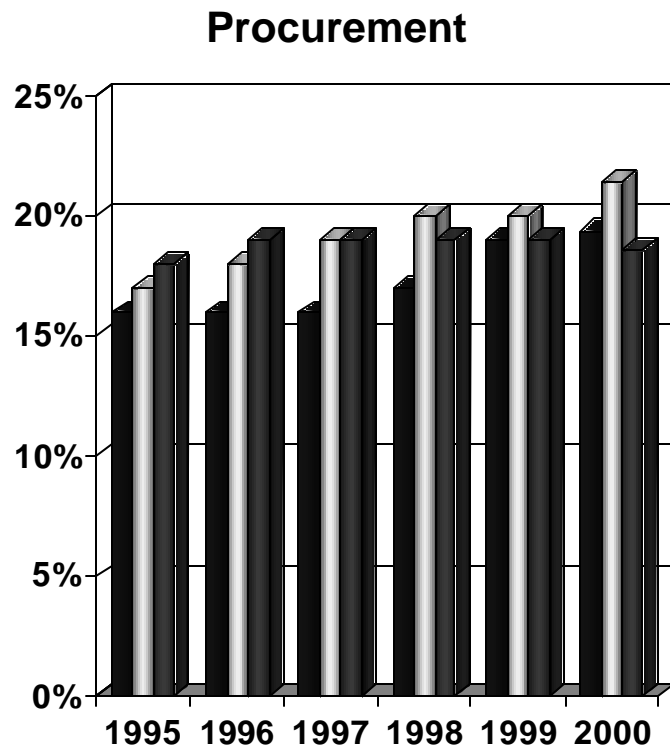
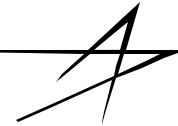
The U.S. Comprises Nearly 40% of the World's Defense Spending

International Defense Budgets 1999-2008



Source: Teal Group

US R&D Investment Significantly Exceeds That of Allies



Source: The Military Balance

Defense Globalization 2000-01



Purchased:

- Hawker de Havilland
- AeroInfo
- Hughes Space



- Selected EADS as JV Partner in Military A/C



- Acquired LM Controls and AES
- Attempted KAI Investment with Boeing



- Formed Air Defense JV with THALES



- Formed Alliance with EADS
- Announced Buy of Litton

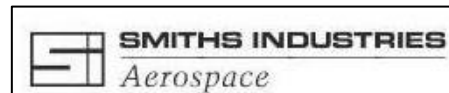


- Completed Merger
- Attempted KAI Investment with LM
- Formed AgustaWestland JV with Finmeccanica
- Purchased Boeing Facility

THOMSON-CSF



- Racal
 - Shorts Missiles
- Equity/JVs:
- Pilkington Optronics
 - Diehl Avionik
 - Samsung Electronics



Acquired U.S. Properties:

- Fairchild Defense
 - Florida RF Labs
 - EMC Technology
 - LEA International
 - Marconi Actuation Systems
- Acquiring: TI/Dowty

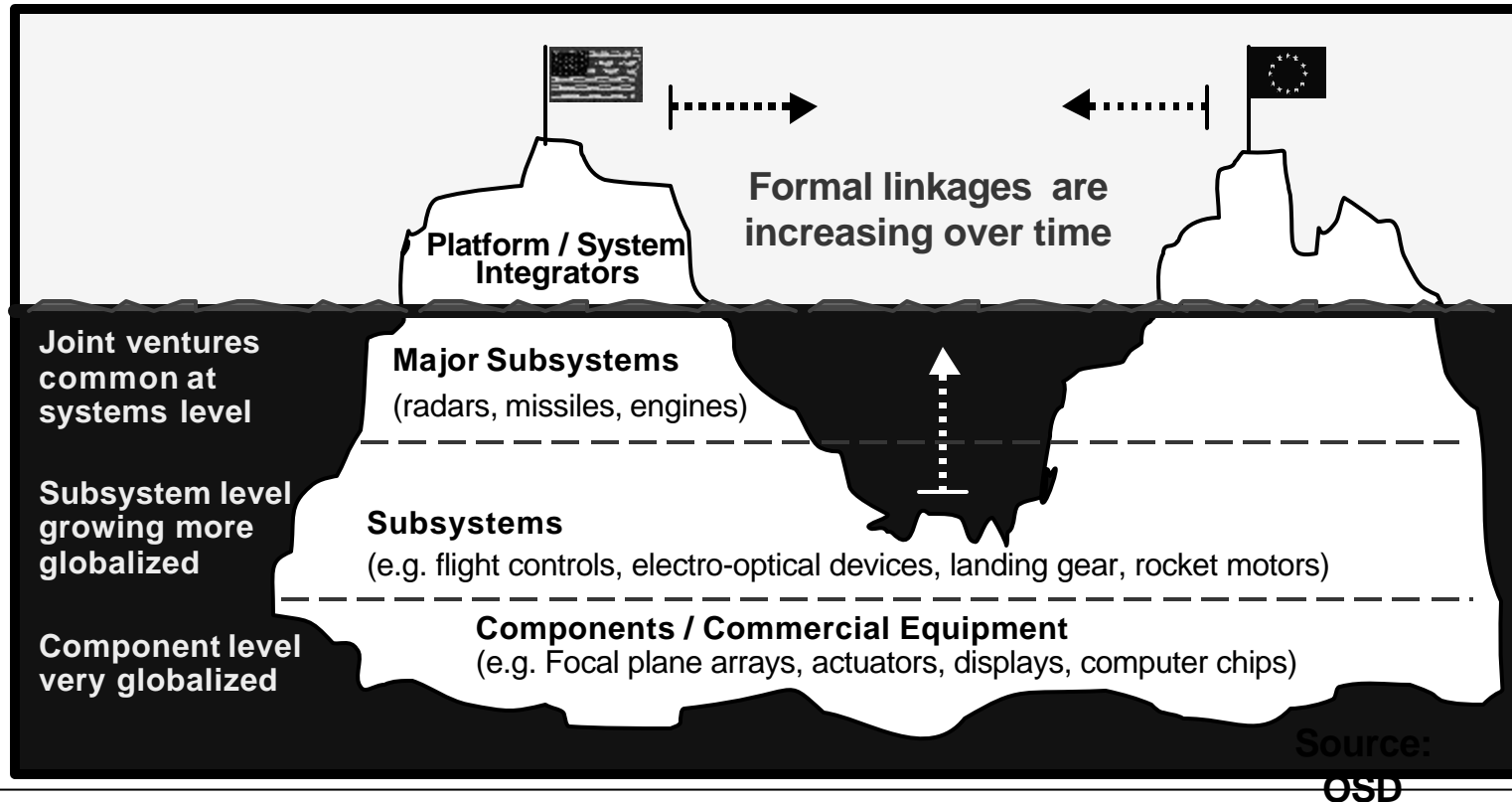


- Bid for Empresa Nacional Santa Barbara



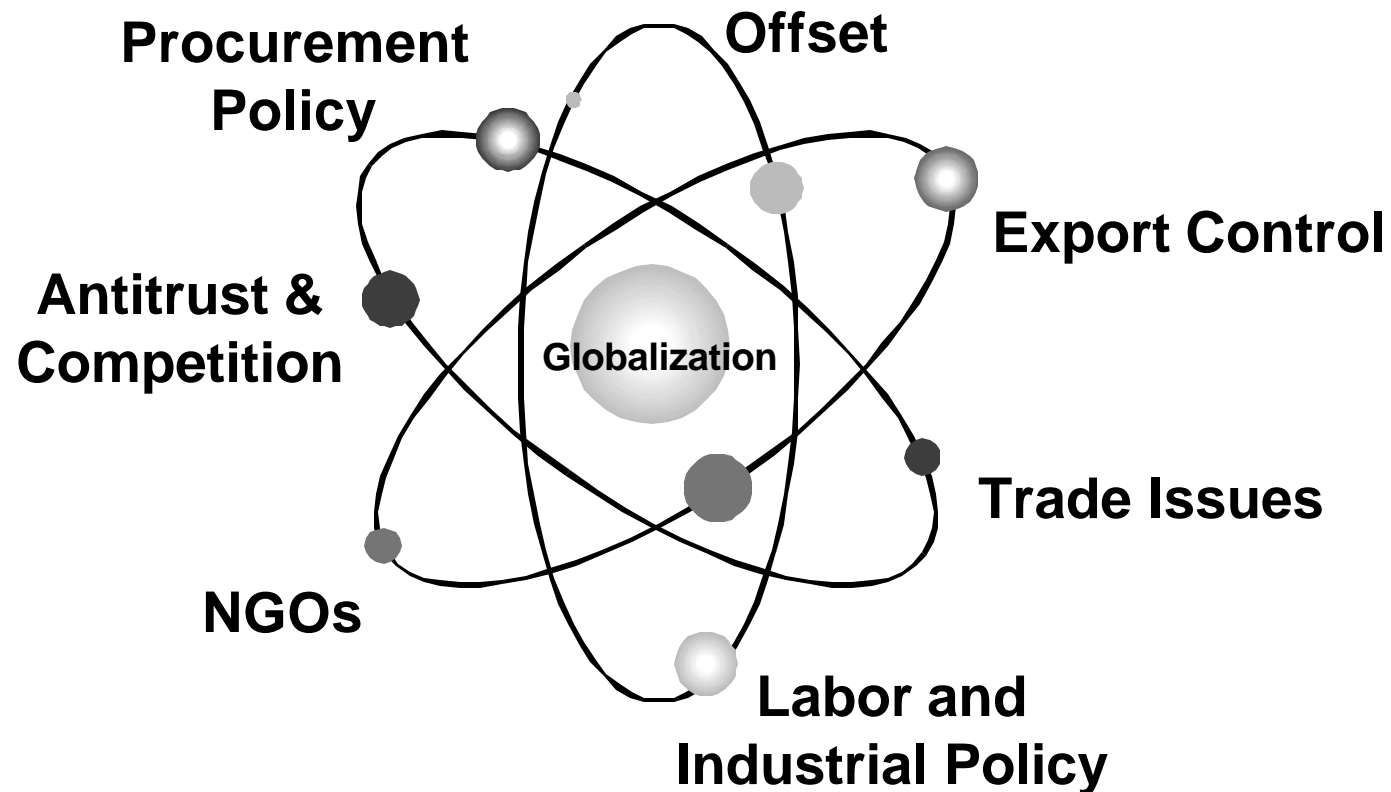
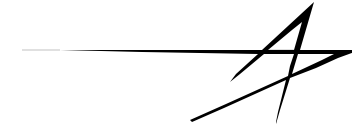
- Bazan and AESA Merging to Become Izar

Reality: An Increasingly Integrated Industrial Foundation Among U.S. and European Allies

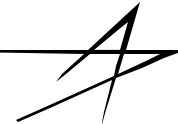


As of April 2000, 26 of the largest foreign defense companies owned 197 U.S. subsidiaries competing in the U.S. defense market.

Policies and Issues Constrain Defense Globalization



Globalization: How Far Will It Go?



Inhibitors

- Limited by Nature of Defense
- U.S. Dominates World Defense Spending
- U.S. Has Significant Technological Lead
- Politics

Globalization Today

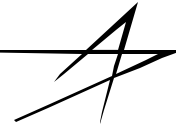
- Regulatory Reform
- Common Requirements
- Joint Ventures
- Alliances
- Acquisitions
- Multi-national Programs

Catalysts

- Commercial World Is Globalizing
- Desire for Interoperability
- Supply Chain is Globalizing
- Required for Continued Access to International Markets

A Function Of Market Dynamics, Not An Objective

International Business Models Are Evolving for US Companies



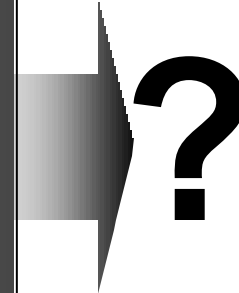
Previous Model

- *U.S. Market*
- *Defense Products*
- *USG Funded Development*
- *FMS Dominated Exports*



Today's Model

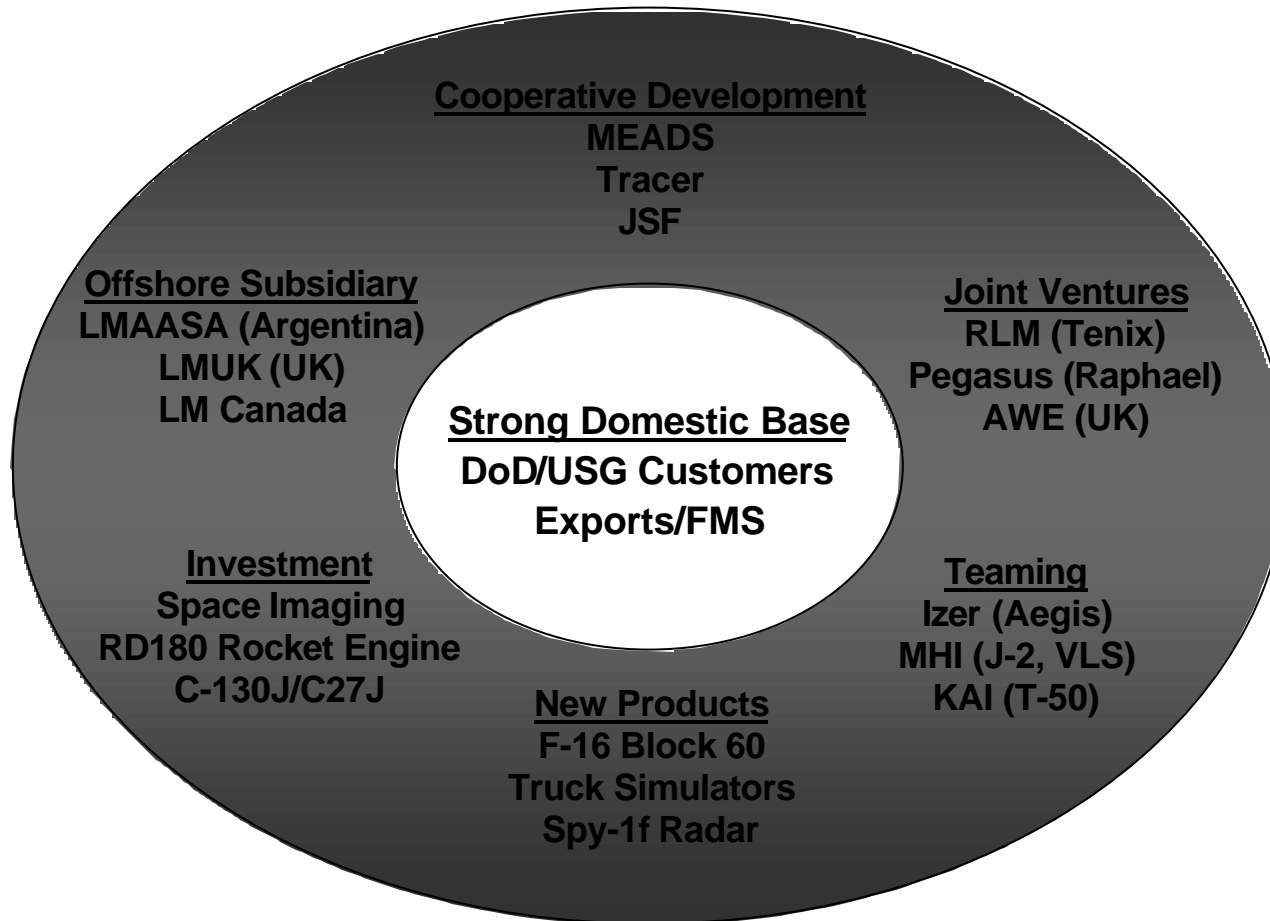
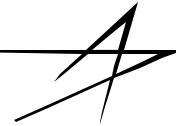
- *U.S.+ International Markets*
- *Defense, Civil and Commercial Products*
- *International Funded R&D*
- *International Launch Customers*
- *Direct Commercial Sales*
- *Teaming, Joint Ventures*



Future Models Will Demand Flexibility

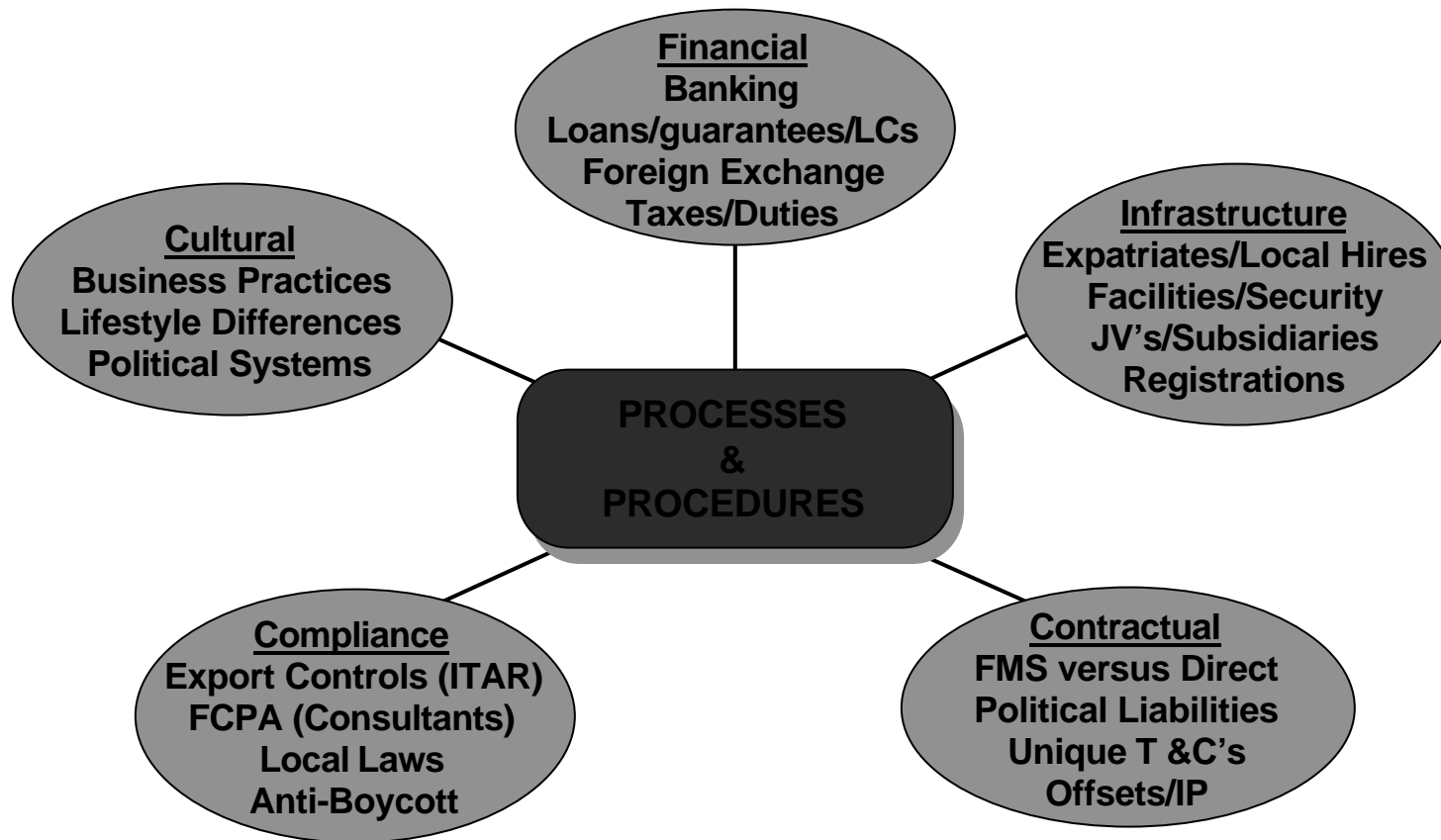
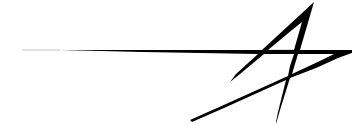
Lockheed Martin Examples

Different Models for International Growth



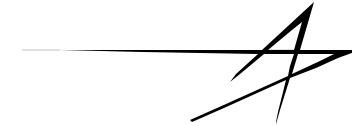
International Marketplace

Requirements are Unique and Complex



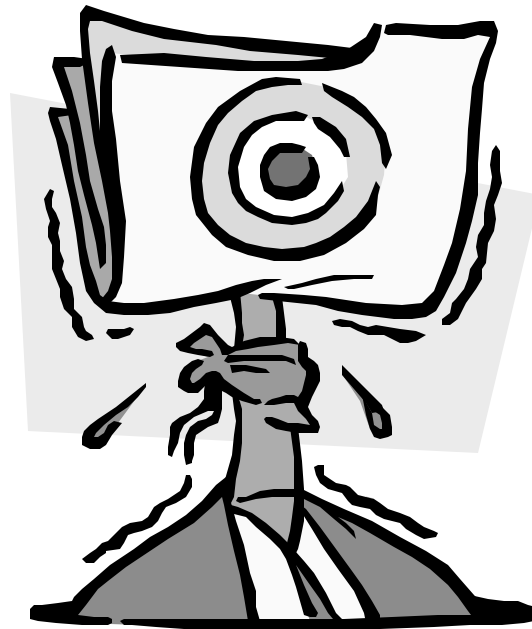
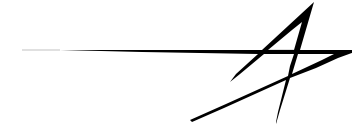
International Capture

Elements Essential for Success



- ***Show me the money - what is the budget process?***
- ***Can I find the winning teammate?***
 - Qualifications, business practices, political connections
- ***What is my ability to access the customer?***
 - Field offices, consultants, teammates
- ***How long is the campaign realistically?***
- ***Can I afford to pursue and win?***
 - Pursuit costs, transaction costs, unique T&Cs
- ***Will the USG support the best solution?***
 - Technology transfer, advocacy, demonstrations, testing

Your Turn



Questions?